

Employer Responsibility for Limit Testing in 2005

Limits on Tax-Deferred Retirement Plans

All tax-deferred retirement plans are subject to limits on the amount of compensation that can be deferred or otherwise contributed by or on behalf of a participant. When an employer offers multiple plans or vehicles for retirement savings (including 457 plans, 403(b) plans and 401(k) plans) to its employees, care must be taken to coordinate the various applicable limits.

Elective Deferral [402(g)] Limits for 2005

Plan Type	Amount	Catch-up	Coordination
401(k)	\$14,000	\$4,000	Coordinate with 403(b) only
403(b)	\$14,000	\$4,000	Coordinate with 401(k) only
457	\$14,000	\$4,000	No coordination with 401(k) or 403(b)

These limits will increase in 2006 as follows:

Plan Type	Amount	Catch-up	Coordination
401(k)	\$15,000	\$5,000	Coordinate with 403(b) only
403(b)	\$15,000	\$5,000	Coordinate with 401(k) only
457	\$15,000	\$5,000	No coordination with 401(k) or 403(b)

After 2006, the deferral may be adjusted for inflation annually in \$500 increments.

Catch-Up Provisions

If the participant is at least 50 years of age during 2005, he or she may contribute an additional \$4,000 to a 403(b) and/or 401(k). Contributions to the 401(k) and 403(b) plans are combined for purposes of calculating the annual limit as well as the catch-up contributions. The participant may also contribute an additional \$4,000 to a 457 plan; that limit is not coordinated with the 401(k) or 403(b) plans.

Coordination Between Plans

Participants may contribute the maximum voluntary contribution into both a 401(k) and a 457 plan, or a 457 plan and 403(b) plan. If the participant contributes to a 401(k) and a 403(b), he or she may only contribute a total of \$14,000 (\$18,000 if age 50 or older) between both plans.

If you offer a 457, that plan may provide for additional catch-up provisions in the three years immediately preceding normal retirement. Check with your 457 plan administrator.

The 403(b) also has its own additional catch-up provision called the "15-year rule." Check with your 403(b) provider for more details.

Annual Additions [415(c)] Limits

An employer may choose to match a participant's contributions to any 401(k) or 403(b) plan.

In a 401(k) plan or 403(b) plan, the employer contribution together with any voluntary contributions made by the participant may not exceed the participant's gross salary or \$42,000, whichever is less. The 415 limits are not applicable to 457 plans, which generally cannot receive employer contributions.

Questions on Limits

Because deferral limit issues can be complicated, particularly when a member contributes to multiple plans, PERSI encourages members and employers to consult qualified tax professional to ensure all applicable limits are not exceeded. If you are unable to resolve questions, please contact PERSI. Although PERSI can provide limited direction and assistance, the member and employer are ultimately responsible for assuring limits are not exceeded. Failure to comply with limits can result in penalties against both the participants and the employer.

Limits Calculator

We provide a Limits Calculator on the PERSI Web site for your use in calculating where individual employees are with respect to reaching the annual limits to the voluntary tax-deferred retirement plans. To use the Limits Calculator, go to:

http://www.persi.idaho.gov/Choice_Plan/LimitsCalc/